



Munich Personal RePEc Archive

Earnings Supplementation for British Columbia: Pros, Cons, and Structure

Kesselman, Jonathan and Petit, Gillian

School of Public Policy, Simon Fraser University, School of Public Policy, University of Calgary

December 2020

Online at <https://mpra.ub.uni-muenchen.de/105931/>
MPRA Paper No. 105931, posted 12 Feb 2021 06:55 UTC

Earnings Supplementation for British Columbia: Pros, Cons, and Structure

Gillian Petit, School of Public Policy, University of Calgary
Jonathan Rhys Kesselman, School of Public Policy, Simon Fraser University

Date: December 2020

Author Note

The authors can be contacted at: gillian.schafer@ucalgary.ca and kesselman@sfu.ca.

Research paper commissioned by the Expert Panel on Basic Income, British Columbia.
We gratefully acknowledge funding from the Government of British Columbia (spcs46008190052 and spsc46008190046) that helped support this research. All inferences, opinions, and conclusions drawn in this paper are those of the authors, and do not reflect the opinions or policies of the Data Innovation Program or the Province of British Columbia.

Abstract

This paper provides background on key issues for the reform of earnings supplement (ES) programs in B.C.: motivation, policy history, and structure of existing and potential provisions. ES programs offer benefits that are linked to an individual's earnings, as distinguished from programs that offer cash transfers that are unconditional on work or earnings. Thus, the motivations for the ES benefit structure are related to views about reciprocity, self-respect, and social participation and contribution. As a consequence, ES programs have garnered wide support across the political spectrum. The paper describes the ES benefit structure, its parameters, and its operational aspects. The federal Canada Workers Benefit (CWB) is the only ES program currently available for B.C. residents. Options for reform or enhancement of the CWB for B.C. workers are surveyed and assessed at a qualitative level: cost-free reconfiguration of the CWB, provincial top-ups to the CWB, and the institution of a B.C. scheme funded and operated by the province.

Introduction

Workers who have low earnings but are not receiving Income Assistance (IA) constitute a large proportion of British Columbia's poor and near-poor population. Notably, non-elderly single adults without children and, particularly, young adults have the highest poverty rates in the province (Petit and Tedds 2020a). To address these issues, programs that supplement earnings while also increasing incentives to enter the paid workforce and to earn more can be employed by the provincial and federal governments. Earnings supplements could be an alternative to a new basic income scheme that replaced much of the income and social support system. However, a sweeping reform such as basic income would impose new work disincentives for a much larger group of low and moderate earners not currently drawing IA.¹ This paper focuses on earnings supplementation (ES) programs that add to the individual's market earnings rather than penalizing them through benefit-reduction provisions.

This paper considers ES reforms for the province of B.C. It assesses the comparative advantages and shortcomings of various ways of formulating ES provisions for persons with low earnings rates or limited earning capacity by reviewing ES programs and the related research. A related paper (Petit and Kesselman 2020) undertakes simulations of various ES reforms for B.C. Throughout both, we consider three types of ES approaches in the B.C. policy context: (a) reconfiguring the federal Canada Workers Benefit (CWB) for B.C. residents; (b) provincial topping-up of the CWB as many U.S. states have done with the U.S. scheme; and (c) instituting a new provincial ES program, following the lead of three other Canadian provinces. In addition, this study discusses some broader issues associated with this form of policy initiative.

We note a caveat with respect to B.C. recipients of IA, the province's social assistance program (sometimes called *welfare*).² Recipients of IA face severe work disincentives; for earnings above a specified earnings exemption, an IA recipient's benefits are clawed back at a rate of 100%.³ For the minority of IA recipients who have significant employment earnings, reforms to the IA program's steep income tax-backs would be a more direct and effective remedy to these disincentives than an ES program.⁴ The IA clawback issue is not addressed in the ES papers, although the related paper (Petit and Kesselman 2020) on simulations does consider the effect of an ES program on an IA recipient's marginal effective tax rate and participation tax rate.

¹ This issue is discussed in detail later in the study. Advocates of a basic income or negative income tax have often cited the disincentives of welfare while ignoring this larger issue arising with their schemes.

² For more information on the IA program in B.C., see Petit and Tedds (2020c, 2020d).

³ In B.C. the tax-back rate is 100% for earnings beyond an exempt level of \$400 per month for Temporary Assistance beneficiaries and \$12,000 per year for Disability Assistance beneficiaries. These exemption levels are scheduled to increase by 25% at the beginning of 2021. See Petit et. al (2020) for more information.

⁴ Each province applies its own set of exemptions and tax-back rates for welfare beneficiaries, with rates of 50% to 70% being more common. See Tweddle and Aldridge (2019, 92–99).

Reciprocity Motivation for the ES Approach

An important issue in the public acceptance and political viability of reforms and innovations to the income-transfer system is reciprocity. The notion that individuals should support themselves to the extent they are able—sometimes called the *work ethic*—is deeply ingrained in social norms. Even the Marxian dictum “From each according to his ability, to each according to his needs” has long roots both historically and into the modern era.⁵ Some advocates of basic income such as British economist Anthony Atkinson and Canadian economist Lars Osberg have attached a “participation” requirement that beneficiaries be working, searching for work, studying or training, caring for a child or other person, or volunteering.⁶ An assessment of BI proposals by authors for the Canadian Centre for Policy Alternatives has further flagged this issue: “the moral concern of reciprocity and desert remains a significant challenge to the theory and public acceptability of a [universal or unconditional] guaranteed income.” (Young and Mulvale 2009, 23).

The reciprocity issue has also been debated within the framework of moral philosophy.⁷ Philippe van Parijs, a leading proponent of an unconditional basic income, has advanced multi-pronged arguments for not excluding “Malibu surfers and their likes.” In essence, he asserts that some base level of real resources is everyone’s human right and that a wealthy society should enable every person “the real freedom to pursue the realization of one’s conception of the good life.”⁸ For achieving income beyond this basic level, individuals would be expected to provide society with useful contribution through work. In the ethical framework developed by philosopher John Rawls, in contrast, a willingly indolent person would be denied access to unconditional income support:

[T]wenty-four hours less a standard working day might be included in the index of leisure. Those who are unwilling to work would have a standard working day of extra leisure, and this extra leisure itself would be stipulated as equivalent to the index of primary goods of the least advantaged. So those who surf all day off Malibu must find a way to support themselves and would not be entitled to public funds. This merely indicates ... that if necessary the list of basic goods can in principle be expanded. (Rawls 1988, 257, n. 7)

⁵ From Karl Marx’s 1875 *Critique of the Gotha Program* and with similar phrases as far back as 1639 or even in the ancient Roman legal concept of *obligation in solidum*. See Wikipedia entry for the phrase.

⁶ See Atkinson (1996) and Osberg (2018, 192–93) for proposals of a “participation” income. How to verify and monitor these diverse ways of satisfying this program eligibility criterion would be a challenge.

⁷ Van der Veen (1998) provides a critical discussion of the reciprocity objection to a basic income within both the Rawlsian and Dworkian ethical frameworks and addresses alternative notions of reciprocity.

⁸ Van Parijs (1991, 130); the Malibu surfer is a metaphor frequently cited in his writings and those of his critics.

In a parallel but less philosophical vein, economist and Nobel Laureate Edmund Phelps argues for an ES scheme delivered via employers as preferable to a universal basic income (UBI) based on practical grounds of social norms and acceptance:

[W]hat matters to people is not just their total receipts; it is the self-support from *earning their own way*. No amount of UBI would substitute for the satisfaction of having earned one's way without help from parents, friends, and the state—valued as they are. ... [With an ES rather than a UBI] many more people would be able to know the satisfaction of self-support, development, participation, and contribution. (Phelps 2001, 58–59; emphasis in the original, a commentary citing both Van Parijs and Rawls)

The reciprocity concern has exerted a strong influence on the development of both traditional and modern welfare programs. While income support for persons with work limitations, such as a disability or old age, has wide public acceptance, able non-elderly persons are expected to earn their living as far as they can. This fact is reflected in the provinces' welfare systems (such as IA in B.C.), with their sharp differentiation based on employability. The original U.S. Earned Income Tax Credit (EITC) grew out of opposition to a proposed negative income tax. Since then, the EITC has been repeatedly expanded with bipartisan support in the U.S. Congress and most states adding supplementary benefits.⁹ In Canada the Working Income Tax Benefit (WITB; predecessor to the CWB) was first introduced in a 2005 Liberal budget update and implemented in a 2007 Conservative budget. A 2013 parliamentary committee assessing income inequality endorsed expansion of the WITB with support from all three major parties (Government of Canada 2013b). Testifying before the committee, economist Miles Corak asserted: "The design of [the WITB] is a best practice in the provision of income support. It should be the main instrument for preventing inequalities at the lower end of income distribution from becoming too great" (Government of Canada 2013a, 2). Wide cross-partisan support is a major plus for the ES format.¹⁰

Benefit Structures

Figure 1 depicts the contrasting structures of several types of program formats. A universal basic income (UBI) provides a fixed payment per period (G) regardless of income, so that its tax-back rate is 0% throughout. A welfare-type or Income Assistance program may have an initial range of exempt earnings that do not affect the net benefits paid; over this range, the effective tax-back rate is 0%. For any additional earnings, the net benefits decline at the tax-back rate times those earnings; as depicted in the figure, this rate is the 100% that applies to

⁹ Hotz and Scholz (2003) and Nichols and Rothstein (2016) cite this bipartisan support in the U.S. EITC expansion has been proposed (see Hoynes, Rothstein, and Ruffini, 2017, and Marr et al., 2019), and EITC expansion was a centrepiece of Republican Congressman Paul Ryan's anti-poverty plan in 2014.

¹⁰ Gillezeau and Speer (2016) cite support for the ES approach across the Canadian political spectrum.

earnings beyond the exemption for IA beneficiaries in B.C. A negative income tax or refundable tax credit (NIT/RTC) applies a tax-back rate below 100% to provide some incentive for beneficiaries to work and increase their earnings. In the figure this rate is assumed to be 50%.

In contrast to conventional income support programs, ES programs provide a subsidy over a range of earnings. The program may have an initial threshold of earnings that do not garner the subsidy, but above that threshold incremental earnings are subsidized over a benefit phase-in range, which is effectively a *negative* tax rate. At some level of earnings, the net benefit reaches a maximum amount per period, and for a plateau range of earnings beyond that the tax-back rate is effectively 0%. Finally, beyond the plateau range, the net benefit is reduced for additional earnings over a phase-out range until net benefits reach zero. Figure 1 depicts an ES program with illustrative phase-in and phase-out rates of –40% and 30%, respectively.

Figure 2 more clearly displays the three ranges for an ES. T1 is the threshold level of earnings for receiving the supplement at rate s , which reaches a maximum total amount per period (MAX) at an earnings threshold (TM); this is the phase-in range. The MAX credit is constant over a range of earnings ending at threshold T2; this is the plateau range. Earnings beyond T2 are reduced at a phase-out rate r ; this is the phase-out range. An important point is that, while earned income is used to compute the phase-in of benefits, net income (which includes other sources) is used to compute the phase-out of benefits.¹¹ Finally, net benefits decline to zero at a break-even level of earnings (B). Thus, the ES benefit structure can be fully described by the levels chosen for the parameters T1, s , MAX, T2, and r . The remaining program parameters TM and B are fully determined by choice of the other parameters.¹²

Program Incentives

All of the income-transfer program formats, apart from the ES, exert disincentives for labour-force entry (or re-entry following a period of withdrawal or unemployment) and work effort. This effect follows from their marginal effective tax rate on earnings beyond any level of exemption that they may provide. This outcome is clear for B.C.'s IA program, with its 100% tax rate on earnings beyond specified exempt levels.¹³ It is also clear for almost any major proposal to institute a RTC/NIT variety of income support to replace the income and social support system, though it would likely reduce disincentives for the minority of people who are poor and currently rely on IA. A UBI scheme has no explicit tax-back on earnings or income more generally. However, financing the massive budgetary cost of a UBI would necessitate increases in income and other taxes, which would unavoidably raise overall marginal tax rates.

¹¹ If this other income includes social assistance benefit, this may trigger an important interaction, which will be pursued later in our analysis of the Canada Workers Benefit.

¹² The relationships are $TM = T1 + MAX/s$ and $B = T2 + MAX/r$.

¹³ For more information on the marginal effective tax rate and how it is affected by B.C. income and social assistance programs, see Milligan (2020).

The ES program format combines a variety of work-related incentives with its phase-in, plateau, and phase-out benefit ranges. The phase-in range provides an incentive for entering (or staying in) the labour force, and its threshold makes this attractive only for non-trivial amounts of earnings. The plateau range constitutes a pure income effect, with no increase in marginal tax on earnings;¹⁴ this might be expected to exert at most a small reduction in work hours but does not induce withdrawal from work. The phase-out range has the same structure and incentive effect as the RTC/NIT format and might be expected to reduce work hours; but unlike those formats, the ES alone does not induce withdrawal from the workforce.

Empirical studies of the ES based on the U.S. EITC confirm large increases in labour force participation and earnings (particularly by single mothers) in the phase-in and plateau ranges, minimal effects on most beneficiaries in the plateau range, and very small reductions in work by married women in the phase-out range.¹⁵ Studies also find that some ES beneficiaries, especially self-employed people, optimize their benefits by reporting earnings that place them on the phase-in or plateau benefit ranges (Chetty, Friedman, and Saez 2013). The stimulus of an ES program to increase work hours by beneficiaries increases aggregate supply of labour in the relevant markets. As expected, the impact on equilibrium wage rates for those types of labour is negative; that is, employers share in part of the gains from an ES program of sufficient scale (see Leigh 2010). On account of this impact, analysts have suggested that increases to the minimum wage could cushion the wage-rate impact and thereby enhance the poverty-reduction efficacy of ES-type programs (see Rothstein and Zipperer 2020; Neumark and Wascher 2011).

ES programs also differ from most other income-transfer programs in their incentives for compliant reporting of earnings. With significant or large tax-back rates on reported earnings, IA and RTC/NIT programs discourage full reporting of actual earnings by beneficiaries. They thus induce some movement of individuals from the legitimate, compliant sector of paid employment to underground, illegal, and non-compliant sectors that pay compensation in forms that are not reported to the tax and benefit authorities. Self-employment is another kind of work activity favoured by persons subject to high tax or tax-back rates, since this sector frequently offers cash payments and ways of overstating expenses. In contrast, under an ES program for beneficiaries in the phase-in or plateau benefit ranges, the incentive is to report full earnings so as to obtain the supplement. In fact, some self-employed beneficiaries under the U.S. EITC have been found to overstate their earnings so as to increase benefits (see Nichols and Rothstein 2016, 155, 165, 177). Positive impacts on child health and development from income

¹⁴ Depending on interactions with other tax and transfer programs, impacts on marginal effective tax rates (METRs) can arise.

¹⁵ The extensive empirical findings on the effects of the U.S. EITC are surveyed in articles by Hotz and Scholtz (2003) and Nichols and Rothstein (2016), which are summarized in Kesselman (2020). Kleven (2019) presents findings that contradict earlier research findings on the EITC, but Whitmore Schanzenbach and Strain (2020) provide findings more supportive of the earlier research. Hasan (2015) estimated small increases in labour-force rates and work hours for single childless participants in the Canadian WITB program.

transfers are reported in many studies, but whether they are greater for work-related programs is not yet resolved.¹⁶

Approaches to Reforming Incentives

Our analysis will progress through descriptions of existing programs and their potential reforms. We begin with the existing welfare programs in B.C. and consider reforms of their earnings exemption provisions. Next, we describe the U.S. Earned Income Tax Credit program, which provides a useful reference and backdrop to the development of analogous programs in Canada. Then we provide a description and assessment of the current federal Canada Workers Benefit and its predecessor, the Working Income Tax Benefit program. A critical deficiency in the way that the CWB interacts with provincial welfare benefits is detailed and noted for possible remedy. We next consider possibilities for B.C. to reconfigure the CWB program parameters as the benefits apply to B.C. residents. Three provinces have instituted their own ES programs that operate alongside the CWB, and these offer useful insights on possible ways of structuring ES at the provincial level. Finally, we provide thoughts on how B.C. might structure and operate its own ES program, as well as the attractions and drawbacks of such a scheme.

Earnings Exemptions for B.C. Income Assistance

Modifying the tax-backs of B.C.'s IA program would be the most direct and simple way to instill greater incentives for beneficiaries, but it alone would do nothing for the broader class of persons living in poverty. The numbers of IA recipients in B.C. affected by work requirements (which include job search and work preparation) are a minority of all IA beneficiaries;¹⁷ they are very small relative to the total labour force or even workers not on IA but with incomes below the poverty threshold. There are reasons to prefer moderation of the IA clawback rates to address work disincentives faced by IA recipients even if an ES program is introduced. First, reducing the phase-out of IA benefits is far more salient to the work choices of an IA beneficiary than applying a 100% tax-back rate and then partially offsetting that via an ES on earnings. Second, IA beneficiaries are required to submit monthly report forms on their incomes, which allows for timely adjustment of benefits to any variations in their earnings. Under an ES program administered via the income tax with retrospective reporting of a year's earnings, benefits would respond to recent earnings with long delays and little transparency; this would mute any positive incentive effects. Third, an ES program administered via the Canada Revenue Agency will have less than complete take-up by IA beneficiaries, unlike a reduced tax-back rate within the IA program itself.

¹⁶ See review of the evidence and discussion in Jones and Stabile (2020) and Kesselman (2020).

¹⁷ In December 2019 fewer than 40,000 IA beneficiaries in B.C. faced work requirements; Government of British Columbia, Ministry of Social Development and Poverty Reduction (2019).

U.S. Earned Income Tax Credit

The U.S. Earned Income Tax Credit (EITC) is a useful reference point for the counterpart Canadian program, since the former has been in place much longer and is much larger relative to its economy.¹⁸ The EITC has an illustrious history as the counter to the Nixon administration's 1969 proposal for a negative income tax called the Family Assistance Plan. That proposal was never adopted, mainly due to opposition based on concerns about the potential adverse effects on work effort and family stability. Some opponents simply disliked the notion of making payments to individuals who did not work.¹⁹ Instead, an ES scheme was implemented, first as a temporary measure in 1975 and thereafter on a permanent basis. The scheme has attracted strong support from both sides of the political aisle and has been repeatedly expanded. Over time, the program's initial objectives of reducing reliance on welfare programs and boosting employment have increasingly emphasized poverty reduction. The EITC has become one of the United States' largest cash transfer programs, with 28.3 million households receiving an average of \$2,466 in 2015, for a total federal cost of US\$69.8 billion (U.S. Internal Revenue Service 2019).

The EITC takes the same benefit structure as the earnings supplementation format described earlier. The only difference is that its threshold for the phase-in rate (T1) is set at one dollar for all participants, so that eligible earnings qualify for the phase-in subsidy rate(s) from the first dollar. Table 1 presents the program parameters for the EITC in 2018; these differ between single/unmarried tax filers and married joint tax filers²⁰ only with respect to the phase-out thresholds (T2) and break-even levels (B). Otherwise, all other parameters are the same irrespective of type of family or tax filer. Most notable is the extremely low phase-in rate and maximum credit (MAX; US\$519) for childless beneficiaries regardless of marital status. Phase-in rates are 40% or higher for families with two or more children. Maximum benefits are much larger for families with children and rise with the number of children, to a top of US\$6,431 for three or more children. Moreover, the break-even levels (B) rise close to median incomes except for childless beneficiaries. In addition to the EITC, the U.S. also has a substantial Child Tax Credit that is non-refundable, but with a component that is structured much like an ES.²¹

Attesting to the popularity of the earnings supplementation approach, beginning in the latter 1980s, states began introducing supplementary provisions that piggyback onto the federal

¹⁸ For example, a Canada Department of Finance (2016) study cited the U.S. literature on the EITC for evidence of the work impacts of an ES program.

¹⁹ While the Family Assistance Plan did not have a formal work requirement, it required that recipients register at employment offices for work, training, or vocational rehabilitation, and it provided expanded day care and transportation services. However, these provisions did not satisfy the critics. (Nichols and Rothstein 2016, 143).

²⁰ Note that the ability of common-law partners to file as joint married in U.S. federal income tax hinges on whether their state recognizes the legal status of common-law relationships.

²¹ While the basic CTC is not refundable, the Additional CTC is paid for beneficiaries based on 15% of earnings above US\$2,500 and thus mimics an ES. See Tax Policy Center (2018) and Hoynes and Rothstein (2017). The U.S. Child Tax Credit is tilted much more toward families at higher incomes than the EITC.

the EITC. Currently supplements to the EITC are provided by 29 states and the District of Columbia, in both Republican and Democratic states. The state supplements are typically structured as simply a fixed percentage of the taxpayer's federal entitlement (with a few being non-refundable). Depending on the state, the supplements apply at rates ranging from 6% to as high as 100% of the federal amount.²² All states administer these supplements along with their state tax returns, which are separate from U.S. federal tax returns.

Another notable though passing innovation in the U.S. EITC was its option for advance EITC payments beginning in 1998. An individual taking this option would complete a form estimating their earnings and thus EITC benefit for the coming year; a portion of that amount was credited to their tax withholding by their employer through the year. If they overestimated their advance credits, the shortfall would be charged to their tax liability in the next year's filing. This option was introduced with the intention of giving EITC beneficiaries some benefit through the year rather than as a lump-sum credit at tax filing. However, the advance payment option was little used, with only about 1% of beneficiaries taking it, and it was revoked in 2011. Several possible reasons have been suggested for the failure of the advance payment option: lack of awareness, frequent job changes and the need to reset with a new employer, preference that their employer not know of their EITC status, apprehension about the need to repay excess amounts, and preference for receiving a lump-sum credit at tax filing.²³

The EITC has been credited with many benefits for social policy objectives in the U.S. as well as increasing work and labour force attachment (particularly for single mothers).²⁴ Along with other refundable tax credits, the EITC has been estimated to lift 8.9 million people above poverty, including 4.8 million children in 2017 (U.S. Internal Revenue Service 2019). Receipt of EITC benefits is found to be concentrated among families with incomes (after tax and transfers) that would have been between 75% and 150% of the poverty line. A US\$1,000 increase in the EITC was estimated to induce an 8.4 percentage point decrease in the share of female single-parent families below the poverty threshold (Hoynes and Patel 2018). Moreover, many studies have found the EITC to exert significant positive impacts on parent and child health outcomes and children's academic achievement.²⁵ Of course, any transfer program, including ones not linked to work and earnings, can raise incomes, and whether these social benefits stem in part from the parent's work activity above and beyond the income is unresolved. Yet, participation in work yields the experience for earnings gains and a positive role model for children.²⁶

²² For details by state, see Tax Policy Center (2020).

²³ For description of the EITC advance payment option and analysis of reasons for its failure, see Hotz and Scholtz (2003, 191) and Nichols and Rothstein (2016, 178–80). The advance payment option allowed for *negative* tax withholding from a low earner's regular paycheck.

²⁴ For a more detailed summary of these findings and the references, see Kesselman (2020).

²⁵ See particularly the studies cited in Nichols and Rothstein (2016).

²⁶ See discussion of this issue in Kesselman (2020) and citation of relevant sources.

Canada Workers Benefit

In 2019 the Working Income Tax Benefit (WITB) was renamed the Canada Workers Benefit (CWB) and enriched in some respects. The government has instituted measures to make access to the CWB more automatic with tax filing and to provide for periodic payments within the year.²⁷ The CWB has an estimated annual cost of \$2,045 million in 2020 (Government of Canada, Department of Finance 2020, 39). Table 2 provides the benefit parameters for the CWB in 2019 for its basic provision and a supplement for claimants with a disability. The basic benefit has a phase-in threshold of \$3,000, with a phase-in rate of 26% that is more than twice the 12% phase-out rate. The maximum annual credit (MAX) for single claimants is \$1,000 less than the \$2,335 maximum for families of two or more (either a couple regardless of children or a single parent with at least one dependent child). No differentiation is made between those two types of claimants with respect to the phase-in threshold and rate or the phase-out rate. However, the phase-out thresholds do differ for the two types, and the break-even levels also differ, at about \$24,000 for singles and \$36,000 for others—both figures that are well below median incomes for families of those types.

Given the long existence of the U.S. EITC prior to the CWB (and the WITB), it is useful to compare their benefit structures. One notable difference is the EITC's absence of a phase-in threshold versus the \$3,000 threshold for the CWB. Another is the EITC's linkage of benefits to the number of children in a beneficiary family; the CWB ties the maximum benefit only to the presence of children (and not the number) solely for single claimants. This difference might be explained by Canada's much more generous provision of cash transfers to families with children through the Canada Child Benefit.²⁸ Keeping in mind the currency exchange rate, the EITC maximum benefits are much larger for claimants with children than the CWB. Accordingly, the break-even levels are much higher in the U.S. than the Canadian program. The programs in both countries provide much lower benefits for single claimants without a dependent child.

Antecedents of the \$3,000 phase-in threshold for the CWB are illuminating and raise the question of its current purpose. A Working Income Supplement (WIS) component was introduced with the Child Tax Benefit (CTB) when it replaced the Family Allowance and other tax-transfer provisions for children in 1993. The WIS was an ES with a phase-in threshold of \$3,750, a phase-in rate of 8%, and a maximum benefit of \$500. Analysts have questioned the rationale for including the WIS in the CTB reform, speculating that the federal government feared provinces would simply offset the increased child benefits with reduced welfare benefits if that part of the benefit were provided unconditionally.²⁹ The WIS was ultimately abandoned in

²⁷ Canada Department of Finance (2018, 32–35). Prior to this CRA initiative, filers claiming the WITB needed to fill out a lengthy and cumbersome Schedule 6 as part of their tax return.

²⁸ Hoynes and Stabile (2019) compare the U.S. and Canadian social safety nets for women and children and find that the U.S. depends relatively more heavily on earnings-related programs.

²⁹ Kesselman (1993, 111). While the WIS was cited as a way to encourage labour force entry and to “break down the welfare wall,” a non-zero phase-in threshold was not needed for that purpose.

the transition to the National Child Benefit System in 1998. A Canadian ES program was reinvented in 2007 with introduction of the WITB, which had a \$3,000 phase-in threshold. That figure has survived in the CWB to the present day without indexation or increase in nominal terms. That raises questions about whether the threshold serves any useful policy purpose and whether its presence makes CWB benefits less transparent to potential beneficiaries.

Current implementation of the CWB (and its WITB predecessor) has a deficiency with respect to incentives for IA beneficiaries.³⁰ This problem results from interaction of the two programs and how income is measured for calculating a participant's CWB. Recall that the phase-out of benefits is based on net income, not earnings alone.³¹ On the T1 tax return, receipt of IA benefits (reported on a T5007 slip) enters into the measure of net income but via an offsetting deduction is not part of taxable income. Given the low levels of the CWB phase-out thresholds except for the disability supplement, any welfare benefits received along with modest earnings can put the CWB claimant's net income into the phase-out range or beyond the break-even level. Note that the incentive effects of the CWB are additive to (or offset by) the effects of the IA program. This interaction effect yields a small diminution in the incremental incentive effects of the CWB for single adults with somewhat larger reduction for single parents. With the higher level of IA benefits for single adults and parents with disabilities pushing beneficiaries into the CWB phase-out range, the intended incentive effects of the CWB are sharply reduced.³²

A study of WITB claimants over 2009–2012 reveals their major characteristics, which should be similar to the situation under the current CWB given the similarity of programs (Government of Canada, Department of Finance 2016). Unattached workers—those without a spouse or dependent child—constituted a majority of all claimants, and they comprised a very high share of claimants under age 30. A majority of WITB claimants of all family types had sufficient net income that their benefit was partially reduced on the basis of net income (that is, they were in the phase-out range).³³ Most working income was related to employment, but self-employment income made up a significant portion for those over age 30. In 2012, claimants were equally divided between men and women, and 10% were also receiving provincial Income Assistance. Among tax filers who were eligible in 2012, an estimated 85% took up the WITB, a rate that should have increased with time and ongoing efforts of the CRA to implement automatic enrolment of eligible persons based on their income tax filing. Yet, additional low-income and vulnerable individuals still do not file a tax return on a regular basis.

³⁰ For elaboration of this issue, see Petit and Tedds (2020b).

³¹ Net income is used in most Canadian transfer and income-tested transfer programs for income testing.

³² See the figures depicting the impacts at various levels of earned income for B.C. in Petit and Tedds (2020b). Single parents receiving B.C. IA disability assistance are not eligible at all for the general component of CWB; they receive only the much smaller CWB disability supplement.

³³ Of all WITB claimants in 2012, 24% were in the phase-in range, 18% in the plateau range, 53% in the phase-out range, and 6% in the phase-in range based on earnings and phase-out range based on their net income. Canada Finance (2016, 294).

Legislation enacting the WITB and CWB allows the federal government to enter into reconfiguration agreements with individual provinces and territories to modify the program parameters to meet a jurisdiction's needs (Government of Canada 1985). Agreements had been reached for Quebec, Alberta, British Columbia, and Nunavut to customize the WITB parameters for application within their jurisdictions. CWB agreements are to be guided by the following principles: (a) they build on actions taken by the province or territory to improve work incentives for low-income individuals and families; (b) they are cost-neutral to the federal government; (c) they provide for a minimum benefit for all recipients of the benefit; and (d) they preserve harmonization of the benefit with existing federal programs.³⁴

B.C.'s previous reconfiguration agreement for WITB was designed to align the CWB benefits better with those of provincial IA. As discussed and illustrated in Petit and Kesselman (2020), B.C.'s variation for single claimants was to increase the phase-in threshold, the maximum benefit, and the break-even level. For couples and single parents claiming CWB, the B.C. variant reduced the phase-in threshold, increased phase-in rate, left the maximum credit unchanged, and slightly increased phase-out threshold, rate, and break-even. To date, B.C. has not entered into a reconfiguration agreement for the CWB. The desirability and form of a CWB reconfiguration agreement for B.C. should be reviewed, since such variation was deemed desirable under the previous WITB format. The need for provincial variation would be heightened by any significant change to the province's provisions for earnings exemptions for IA.³⁵ The potential positives and negatives for a B.C. reconfiguration of the CWB are explored in Petit and Kesselman (2020).

In considering reforms to earnings supplementation, it is useful to review critiques of the WITB prior to its expansion and relabeling as the CWB in 2019.³⁶ Cited shortcomings of the WITB included an inadequate maximum benefit, particularly for single childless claimants who constituted a major share of all beneficiaries; phase-out provisions that yielded break-even levels below poverty thresholds in many cases; and poor responsiveness and deficient take-up by eligible persons. The CWB reforms only partially addressed these concerns, with maximum benefits increased by about \$300 and \$400 per year for single and couple claimants, respectively.³⁷ Phase-out rates were reduced from 15% under the WITB to 12% under the CWB, thus raising the break-even incomes by about \$5,000 and \$7,000 for single and couple claimants, respectively. That change increased the break-even levels to above poverty thresholds, considering that CCB receipts are not counted in the benefit phase-outs. With

³⁴ Personal correspondence from Acting Director, Personal income Tax Division, Tax Policy Branch, Canada Department of Finance, October 24, 2018; cited in Kesselman (2019, 311).

³⁵ In a related paper (Petit and Kesselman 2020), we provide simulations of some CWB reconfigurations for B.C. and estimate their impacts on poverty and on IA clients.

³⁶ The critiques cited here are assembled from commentaries by Jackson (2018) and Milligan (2018), both responding to the federal government's call for input on the planned WITB reforms.

³⁷ For details on parameter values comparing the WITB and CWB programs between 2018 and 2019, see <https://www.taxtips.ca/filing/witb/canada-workers-benefit-2019-vs-witb-2018.htm>

transition to the CWB, filing a tax return would trigger an automatic review for the CWB eligibility. However, extending advance payments of the CWB could do nothing to improve the program's responsiveness to within-year earnings variations or quickly assist individuals departing IA by resuming work and earnings.³⁸

Provincial ES Programs

Three provinces have instituted their own programs of the ES format to operate alongside the CWB in their jurisdictions; these programs are a separate matter from any reconfiguration of the CWB. A review of the design and operation of each provincial ES program may prove instructive for any similar initiative that B.C. might undertake. In describing and assessing these provincial programs, key attributes of interest include the benefit schedule, requirements for eligibility and exclusions, relation to the province's IA system, reporting of earnings, frequency and timing of benefit payments, whether benefits are coordinated with CWB, and whether the system is operated directly by the province or via the Canada Revenue Agency. Unlike the U.S., where state ES programs piggyback directly onto the federal EITC, each of the provincial ES programs uses its own design. Table 3 summarizes some of the key characteristics of the provincial ES programs.³⁹

The Alberta Family Employment Tax Credit (AFETC) is an ES implemented as a refundable tax credit administered and delivered entirely through the Canada Revenue Agency.⁴⁰ Eligibility is restricted to parents (singles and couples) with at least one dependent child under age 18 years. Thus, any family registered for the Canada Child Benefit is automatically enrolled for the AFETC upon filing their tax return. The maximum benefit increases with a family's number of children; for four or more children, the annual maximum is \$2,112. The AFETC benefit begins to phase-out (T2) once the beneficiary's income exceeds \$43,302; break-even income levels are therefore much higher than for the CWB. Changes in household status must be reported, but otherwise within-year variations in earnings or income do not affect benefits until after tax filing the following year.

Quebec's Work Premium Tax Credit is a refundable tax credit administered and delivered through the province's personal income tax system. To be eligible for the credit, a claimant must be at least 18 years, unless they have a spouse or are the parent of a dependent child. Eligibility for the Quebec credit does not require the presence of children; it excludes full-time students unless they are the parent of a child living with them. Monthly advance payments

³⁸ Jackson (2018, 10) suggests that the federal and provincial governments jointly develop means by which IA recipients could immediately access the WITB once their earnings crossed the phase-in threshold.

³⁹ Phase-in rates and phase-out thresholds and rates are not always clearly denoted in online program descriptions.

⁴⁰ In mid-2020 the AFETC was to be merged with the Alberta Child Benefit (ACB) to become the Alberta Child and Family Benefit (ACFB). Alberta Treasury and Finance Department (2019, 147–48). Total maximum benefits per family (tied to number of children) will be just slightly increased from the sum of those under the AFETC and the ACB, but the new scheme has an overall shift of benefits from the earnings-linked component to the unconditional component. For the ACB see Kesselman (2019).

of the Work Premium can be made upon application, to a maximum of 50% of the expected amount if the claimant has a dependent child or 75% otherwise. An Adapted Work Premium can be paid for claimants who have received disability assistance within the past five years, with higher maximum benefits than for the regular credit.⁴¹ A supplement to the Work Premium of \$200 per month can be paid for up to 12 months to previous Income Assistance recipients with monthly earnings of \$200 or more (with a double benefit if both spouses are working).

The Saskatchewan Employment Supplement (SES) is a direct payment administered and delivered by the province. Eligibility requires the presence of at least one child aged under 18 years. Unlike the federal CWB and the other two provincial ES programs, the SES operates with quarterly income report forms rather than as a refundable tax credit paid after the annual income tax filing. The mandatory quarterly report form is relatively simple and must be filed within 18 days of the end of each quarter (online filing is also available). If the beneficiary's income changes month to month, then that must be reported the following month. Thus, SES benefits can respond relatively quickly to changes in a beneficiary's earnings or other income receipts. In addition to earned income, receipt of child or spousal support is also eligible for the supplement. Random audits are used to verify reported incomes, and this can require the submission of pay stubs or tax return information.

In comparing the three provincial ES programs, several points are notable. Break-even income levels are higher in the provincial programs (except Quebec) than the CWB, which allows some benefits to be paid to full-time workers earning the minimum wage. Similar to the EITC, provincial ES programs treat single childless workers far worse than families with children; indeed, Alberta and Saskatchewan totally exclude them. Another significant point is that of the three provinces that employ 100% tax-back rates in their IA program, only B.C. does not have a provincial ES program to instill some measure of incentive for earnings beyond the flat exemption. Both Quebec and Saskatchewan appear to have instituted their ES programs as a way of offsetting their extreme IA tax-back rates. Finally, the discrepant methods of operating the provincial ES programs raise a policy question. Namely, does the increased salience and responsiveness of benefits under Saskatchewan's program justify its undoubtedly higher operational costs and lower take-up rates?⁴²

Broad Policy Issues in the Use of ES

Use of the ES format for income transfers raises a number of broad policy issues that warrant careful consideration. Since no benefit is paid for individuals without market earnings, the ES format is suitable only in relation to the extent of one's ability and opportunity to work. This fact has several important implications. First, individuals who have limited or no ability to work need to be provided income of a format that is not conditional on or linked to earnings.

⁴¹ The phase-in threshold (T1) for the Adapted Work Premium is \$1,200, which is less than for the regular benefit.

⁴² We have not been able to obtain comparable and reliable figures for these measures.

Second, greater reliance on an ES program necessitates a reliable process to assess employability, if those persons are to be excluded from benefits provided to less employable persons. Third, this vetting process should be as transparent and non-stigmatizing as possible. Fourth, even for those classified as having limited employability, some incentive for engaging in part-time paid work should be embedded in the benefit structure. Fifth, in times or regions where jobs are in short supply, the system needs a process to provide persons deemed employable either non-work-conditioned income support or training or special public employment. Sixth, even with an adequate and well-designed ES, work incentives may be diminished by the lack of access to support services, such as child care and transportation. Finally, one needs to consider whether the use of ES programming and the concomitant distinctions based on employability facilitate higher benefit levels for persons with disabilities. Alternatively, does such a differentiation consign more fully employable persons to inadequate benefit levels?

A major issue in the design choices for ES provisions is how responsive the benefits can be to an individual's earnings variations. In terms of policy objectives, greater responsiveness is important for a program's salience, its incentive effects, and its efficacy in supplementing low earnings. However, in terms of program administration and compliance, greater responsiveness likely entails increased costs for both government and beneficiaries. This outcome may hinge on whether the policy response is built into the IA system or delivered by a separate ES program. Depending on the specifics of implementation, achieving greater responsiveness may reduce take-up rates and therefore overall program effectiveness. Given that the target population for ES programs may encompass both those reliant on IA benefits with permanently or temporarily limited employment potential and the working poor not enrolled in IA, the policy reform must consider both populations as well persons at the margin of departing IA for work.

Potential ES Reforms for B.C.

Policy reforms and innovations of the ES format offer potential for British Columbia to increase the rewards for entering or remaining in the workforce and for augmenting low earnings. These policies could play a significant role in reducing the incidence and depths of poverty for lower skilled, less educated, and less experienced workers. The most important target populations for these policies are single childless individuals and single parents without major work limitations—the two family types with the highest incidence and severity of poverty. Single low-earning adults have been most neglected by both federal and provincial programs aimed at poverty reduction. As before, we set aside the existing severe work disincentives for IA beneficiaries in B.C. as a matter better addressed by reform of the benefit and tax-back rate structure. That leaves us with two viable approaches for B.C. to address this issue: 1) reconfigure the parameters of the CWB program for B.C. residents or provide a provincial top-up to the CWB; and 2) institute a provincial ES program following the lead of, but not necessarily the exact design of, three other provincial programs.

Reconfigure CWB Parameters for B.C.

Provinces and territories can enter into reconfiguration agreements with the federal government that alter CWB parameters for the program's application in their jurisdiction. Under this option the jurisdiction is limited such that its aggregate benefits closely match its entitlement under the default federal parameters.⁴³ To date, B.C. has chosen not to reconfigure the CWB, but had done so under the predecessor WITB program, along with other provinces. Table 4 shows the parameters of the three agreements under the WITB in 2018. Alberta and British Columbia varied key program parameters only modestly, such that maximum credits and break-even incomes did not differ much from their default values (except that B.C.'s maximum for singles increased by about \$160 per annum). B.C. also chose a higher phase-in threshold of \$4,750 to align with its \$400 monthly earnings exemption for employable welfare recipients. In contrast, Nunavut varied key parameters substantially, such as adopting much lower phase-in and phase-out rates than the default values. As a result of Nunavut's more dramatic variation of the WITB's default parameters, its program operation was quite different than elsewhere.

Most notable were Nunavut's increases in break-even levels, reaching double the default level for singles and 50% higher than the default level for couples. The territory's reconfigured WITB was thus more likely to supplement earners above the poverty threshold and less likely to induce additional labour force participation than the default program. Nevertheless, the equal-cost constraint for reconfiguration severely limited its maximum credit amounts, to about one-third below the default values for both single and couple beneficiaries. The cost-neutrality requirement thus compels a choice between inducing greater labour force participation and supplementing higher levels of earnings. B.C. could pursue a similar path for reconfiguration of the current CWB as Nunavut did for the WITB, but it would confront the same trade-off. An ES program operated by the province with additional funding would offer better prospects of achieving both of those objectives.

Provide a Provincially Funded Top-Up to the CWB

A variant of a province reconfiguring the CWB on a cost-neutral basis would be a provincial ES scheme sufficiently simple for the CRA to administer jointly with the CWB. Such a scheme would be funded by the province and could have its own benefit structure; however, its eligibility and other aspects would need to be simple enough for the CRA to administer based on standard information on the tax return or a supplementary form. A provincially funded top-up to the CWB, similar to the EITC supplement implemented by U.S. states, would accomplish this.

⁴³ Each year, the total payments to a province are compared with what it would have received under the default federal design. Every three years, the cumulative ratio is assessed, and any departure by 1% above or below unity is applied to adjust the province's program parameters accordingly. Kesselman (2019, 326, n. 6).

Institute a Provincial ES Program for B.C.

Given the limitations for a province or territory in reconfiguring the CWB in its jurisdiction, a more promising avenue might be for B.C. to explore the design of a provincial ES program. A simple top-up of the CWB, may not be attractive,⁴⁴ given the cited deficiencies of the CWB. The linkage of larger ES benefits to the presence or number of children as done in both the EITC and the ES programs of Alberta and Saskatchewan is also not compelling for three reasons. First, it ignores the fact that in B.C. single, childless adults have the highest incidence and depth of poverty. Second, unlike the U.S., the Canadian income security system provides much more generous income support for families with children through the CCB and parallel provincial child benefit programs. Third, the B.C. Child Opportunity Benefit provides support to families based on their number of children, so there is little need for replicating this feature in the design of a B.C. earnings supplement program.⁴⁵

Key design considerations for a potential British Columbia ES program include:

- eligibility (inclusions, exclusions) and application and enrolment provisions
- whether IA beneficiaries should be eligible, and, if so, devising a means to quickly enrol individuals with enough earnings to be departing IA
- relative advantages and drawbacks of reducing the benefit-reduction rates in IA versus introducing a provincial ES program extending to IA beneficiaries
- all of the parameters of the benefit structure
- whether benefit provisions and parameters should differ among family types (single childless adults, single parents, and couples regardless of children)

Other important considerations in the design of a provincial ES program for B.C. relate to administrative aspects. If the program is designed to be operated by a provincial agency rather than via the CRA, this poses both potential benefits and drawbacks. Provincial administration would entail additional operating costs, and it would likely reduce program take-up rates relative to CRA administration.⁴⁶ At the same time, provincial administration would permit greater flexibility in eligibility criteria as well as the potential for much greater responsiveness to within-year earnings variations (following the Saskatchewan model). Increased benefit responsiveness to earnings could increase the program's salience and hence its efficacy in stimulating

⁴⁴ One aspect of the EITC benefit design that might be attractive for a provincial ES scheme to emulate is its use of a first-dollar threshold for the benefit phase-in; this would make the scheme simpler to explain and more salient for beneficiaries. However, due to cost limitations, such a scheme may be unable to reach all earners earning less than the poverty threshold. These tradeoffs should be considered with any design.

⁴⁵ In contrast, Alberta and Saskatchewan combine the ES feature with provision of child benefits. Alberta merged two programs for this purpose in 2020, and Saskatchewan does not offer child benefits separate from ES. Note that in B.C. single parents have significantly fewer children on average than couple families (Kesselman 2019, p. 316).

⁴⁶ Recall that the Alberta program is CRA-administered, whereas the Quebec and Saskatchewan programs are provincially administered.

additional earnings. However, this increased responsiveness could increase program cost and possibly necessitate year-end reconciliations of benefits and repayments by some recipients.⁴⁷

Conclusion

An earnings supplementation scheme would satisfy many objectives of an anti-poverty strategy and some of those of a basic income. Its benefits would be conditional on earned income, which departs from one key principle of a basic income but augments popular support across a wide political spectrum. Encouraging and rewarding work and increased earnings also serve other important social and economic objectives:⁴⁸ self-respect, skill enhancement, community inclusion, patterning for children, and reducing the intergenerational transmission of poverty. An ES program can also be better targeted than minimum wage policy, although the latter is often seen as a complement to earnings supplementation. Increasing labour force participation will also be increasingly vital in the years ahead with an aging population, and this will be especially true with respect to lower-paid and lesser-skilled work. An ES program needs to be complemented by adequate provision of income transfers for those with limited ability to work, but some of its incentive features should be embedded in the design of any transfer scheme.

As we have canvassed in this paper, earnings supplementation schemes can be structured and implemented in various forms, each with its own advantages and drawbacks. A scheme can be designed to stress participation over particular ranges of income, to stress supplementation for particular groups or earnings, and/or to stress reduction of the welfare wall or to assist earners nearer the poverty line. In another paper on ES (Petit and Kesselman 2020), we explore these alternatives in detail and undertake quantitative estimates of their costs and impacts. How each of these alternative approaches might fit within the B.C. policy context is also examined.

⁴⁷ The trade-offs among benefit responsiveness, program cost, and horizontal equity for an ES program are similar to those for a negative income tax as assessed in Kesselman (2020).

⁴⁸ As noted previously, the advocates of a “participation” basic income also stress the role of a range of socially productive activities in their program eligibility criteria.

References

- Alberta Treasury Board and Finance. 2019. Alberta Budget 2019: Fiscal Plan: A Plan for Jobs and the Economy. Edmonton, AB.
- Atkinson, A.B. 1996. "The Case for a Participation Income." *Political Quarterly* 67(1): 67–70. Also see "Symposium: Anthony Atkinson's 'The Case for a Participation Income.'" *Political Quarterly* (2018) 89 (2): 254–79.
- Chetty, Raj, John Friedman, and Emmanuel Saez. 2013. "Using Differences in Knowledge across Neighborhoods to Uncover the Impacts of EITC on Earnings." *American Economic Review* 103(7): 2683–2721.
- Falk, Gene, and Margot Crandall-Hollick. 2018. "The Earned Income Tax Credit: An Overview." *Congressional Research Service* 7-5700. <https://fas.org/sgp/crs/misc/R43805.pdf>.
- Gillezeau, Rob, and Sean Speer. 2016. "The Cross-Party Case for the Working Income Tax Benefit." *Policy Options/Options politiques* (December 7, 2019).
- Government of British Columbia, Ministry of Social Development and Poverty Reduction. 2019. *BC Employment and Assistance Summary Report: Cases by Program and Family Type – November 2019*. <https://www2.gov.bc.ca/assets/gov/british-columbians-our-governments/organizational-structure/ministries-organizations/social-development-poverty-reduction/bcea-caseload.pdf>
- Government of Canada. 1985. Income Tax Act, RSC 1985, c. 1 (5th Supp.).
- Government of Canada. 2013a. *Evidence*. Standing Committee on Finance, House of Commons, 41st Parliament, First Session (April 25).
- Government of Canada. 2013b. *Income Inequality in Canada: An Overview*. Report of the Standing Committee on Finance, House of Commons, 41st Parliament, Second Session (December).
- Government of Canada, Department of Finance. 2016. "The Working Income Tax Benefit: A Profile of Claimants, 2009-2012." In *Report on Federal Tax Expenditures: Concepts, Estimates and Evaluations 2016*, 285–300.
- Government of Canada, Department of Finance. 2018. *Budget Papers 2018–2019*.
- Government of Canada, Department of Finance. 2020. *Report on Federal Tax Expenditures: Concepts, Estimates and Evaluations 2020*.
- Hasan, Sazid. 2015. "Labour Supply Responses to the Working Income Tax Benefit (WITB): A Difference-in-Differences Approach." Master's thesis, Department of Economics, Simon Fraser University, 2015. <http://summit.sfu.ca/item/15353>
- Hotz, Joseph V., and John Karl Scholz. 2003. "The Earned Income Tax Credit." In *Means-Tested Transfer Programs in the United States*. Edited by Robert A. Moffitt, 141–97. Chicago: University of Chicago Press.
- Hoynes, Hilary W., and Ankur J. Patel. 2018. "Effective Policy for Reducing Poverty and Inequality? The Earned Income Tax Credit and the Distribution of Income." *Journal of Human Resources* 53 (4): 859–90.

- Hoynes, Hilary, and Jesse Rothstein. 2017. "Tax Policy Toward Low-Income Families." In *The Economics of Tax Policy*. Edited by Alan J. Auerbach and Kent Smetters, 183–225. New York, NY: Oxford University Press.
- Hoynes, Hilary, Jesse Rothstein, and Krista Ruffini. 2017. "Making Work Pay Better through an Expanded Earned Income Tax Credit." In *The 51%: Driving Growth through Women's Economic Participation*. Edited by Diane Whitmore Schanzenbach and Ryan Nunn, chapt. 4. The Hamilton Project. Washington, DC: Brookings Institution.
- Hoynes, Hilary, and Mark Stabile. 2019. "How Do the US and Canadian Social Safety Nets Compare for Women and Children?" *Journal of Labor Economics* 37 (S2): S53–S288.
- Jackson, Andrew. 2018. *Canada's Working Poor and the Working Income Tax Benefit*. Toronto, ON: Broadbent Institute.
- Jones, Lauren, and Mark Stabile. 2020. *Cash Transfers and Child Outcomes*. Research paper commissioned by the Expert Panel on Basic Income, British Columbia.
- Kesselman, Jonathan R. 1993. "The Child Tax Benefit: Simple, Fair, Responsive?" *Canadian Public Policy/Analyse de politiques* 19 (2): 109–32.
- Kesselman, Jonathan Rhys. 2019. "Policy Options for Retargeting the Canada Child Benefit." *Canadian Public Policy/Analyse de politiques* 45(3): 283–309.
- Kesselman, Jonathan Rhys. 2020. *Design Choice for Income-Transfer Programs: Structural, Economic, and Operational Aspects*. Research paper commissioned by the Expert Panel on Basic Income, British Columbia.
- Kleven, Henrik. 2019. "The EITC and the Extensive Margin: A Reappraisal." NBER Working Paper 26405. Cambridge, MA: NBER.
- Leigh, Andrew. 2010. "Who Benefits from the Earned Income Tax Credit? Incidence among Recipients, Coworkers, and Firms." *The B.E. Journal of Economic Analysis and Policy* 10 (1). Advances: Article 45.
- Marr, Chuck, Brendan Duke, Yixuan Huang, Jennifer Beltrán, Vincent Palacios, and Arloc Sherman. 2019. "Working Families Tax Relief Act Would Raise Incomes of 46 Million Households, Reduce Child Poverty." Report. Washington, DC: Center on Budget and Policy Priorities. <https://www.cbpp.org/research/federal-tax/working-families-tax-relief-act-would-raise-incomes-of-46-million-households>
- Milligan, Kevin. 2018. "FINA Testimony: Canada Workers Benefit. Notes Prepared for House of Commons Standing Committee on Finance." April 20, 2018. <https://blogs.ubc.ca/kevinmilligan/2018/04/30/fina-testimony-canada-workers-benefit/>.
- Milligan, Kevin. 2020. *Participation Tax Rates in British Columbia*. Research paper commissioned by the Expert Panel on Basic Income, British Columbia.
- Nichols, Austin, and Jesse Rothstein. 2016. "The Earned Income Tax Credit." In *Economics of Means-Tested Transfer Programs in the United States*. Edited by Robert A. Moffitt, Volume I, 137–216. Chicago: University of Chicago Press.
- Neumark, David, and William Wascher. 2011. "Does a Higher Minimum Wage Enhance the Effectiveness of the Earned Income Tax Credit?" *Industrial and Labor Relations Review* 64 (4): 712–46.

- Osberg, Lars. 2018. *The Age of Increasing Inequality*. Toronto: James Lorimer & Co.
- Petit, Gillian, and Lindsay M. Tedds. 2020a. *Poverty in British Columbia: Income Thresholds, Trends, Rates, and Depths of Poverty*. Research paper commissioned by the Expert Panel on Basic Income, British Columbia.
- Petit, Gillian, and Lindsay M. Tedds. 2020b. *Interactions Between Income and Social Support Programs in B.C.* Research paper commissioned by the Expert Panel on Basic Income, British Columbia.
- Petit, Gillian, and Lindsay M. Tedds. 2020c. *Overview of System of Income and Social Supports in British Columbia*. Research paper commissioned by the Expert Panel on Basic Income, British Columbia.
- Petit, Gillian, and Lindsay M. Tedds. 2020d. *Programs-Based Overview of Income and Social Support Programs for Working-Age Persons in British Columbia*. Research paper commissioned by the Expert Panel on Basic Income, British Columbia.
- Petit, Gillian, Craig Scott, Blake Gallacher, Jennifer Zwicker, and Lindsay Tedds. 2020. "Less Income for More Hours of Work: Barriers to Work for Income Assistance Recipients in B.C." School of Public Policy Publications, University of Calgary.
- Petit, Gillian, and Jonathan Rhys Kesselman. 2020. *Reforms to Earnings Supplement Programs in British Columbia: Making Work Pay for Low-Income Workers*. Research paper commissioned by the Expert Panel on Basic Income, British Columbia.
- Phelps, Edmund S. 2001. "Subsidize Wages." In *What's Wrong with a Free Lunch?* Edited by Philippe Van Parijs, Joshua Cohen, and Joel Rogers, 51–59. Boston: Beacon Press. Also online in *Boston Review*. (October 2000). <http://bostonreview.net/forum/basic-income-all/edmund-s-phelps-subsidize-wages>.
- Rawls, John. 1988. "The Priority of Right and Ideas of the Good." *Philosophy & Public Affairs*. 17 (4): 251–76.
- Rothstein, Jesse, and Ben Zipperer. (2020). *The EITC and Minimum Wage Work Together to Reduce Poverty and Raise Incomes*. Washington, DC: Economic Policy Institute. <https://files.epi.org/pdf/179545.pdf>
- Tax Policy Center. 2018. "What Is the Child Tax Credit?" In *Briefing Book: Key Elements of the U.S. Tax System*. Urban Institute & Brookings Institution. <https://www.taxpolicycenter.org/briefing-book/what-child-tax-credit>.
- Tax Policy Center. 2020. "State EITC as Percentage of the Federal EITC." <https://www.taxpolicycenter.org/statistics/state-eitc-percentage-federal-eitc>.
- Tweddle, Anna, and Hannah Aldridge. 2019. *Welfare in Canada, 2018*. Toronto: Maytree. [https://maytree.com/wp-content/uploads/Welfare in Canada 2018.pdf](https://maytree.com/wp-content/uploads/Welfare_in_Canada_2018.pdf).
- U.S. Internal Revenue Service. 2019. *Earned Income Tax Credit & Other Refundable Credits*. Accessed at: <https://www.eitc.irs.gov/eitc-central/about-eitc/about-eitc>.
- Van der Veen, Robert J. 1998. "Real Freedom versus Reciprocity: Competing Views on the Justice of Unconditional Basic Income." *Political Studies* 46 (1): 140–163.
- Van Parijs, Philippe. 1991. "Why Surfers Should Be Fed: The Liberal Case for an Unconditional Basic Income." *Philosophy and Public Affairs* 20 (2): 101–131.

- Whitmore Schanzenbach, Diane, and Michael R. Strain. 2020. "Employment Effects of the Earned Income Tax Credit: Taking the Long View." NBER Working Paper 28041. Cambridge, MA: NBER.
- Young, Margot, and James P. Mulvale. 2009. *Possibilities and Prospects: The Debate over a Guaranteed Income*. Ottawa, ON: Canadian Centre for Policy Alternatives.

Table 1*U.S. Earned Income Tax Credit, Program Parameters, 2018*

Number of qualifying children	0	1	2	3+
Single and unmarried tax filers				
Phase-in rate (s)	7.65%	34%	40%	45%
Threshold for maximum (TM)	\$6,780	\$10,180	\$14,290	\$14,290
Maximum credit (MAX)	\$519	\$3,461	\$5,716	\$6,431
Phase-out threshold (T2)	\$8,490	\$18,660	\$18,660	\$18,660
Phase-out rate (r)	7.65%	15.98%	21.06%	21.06%
Break-even level (B)	\$15,270	\$40,320	\$45,802	\$49,194
Married joint tax filers				
Parameters s, TM, MAX, and r all the same as for single and unmarried filers				
Phase-out threshold (T2)	\$14,170	\$24,350	\$24,350	\$24,350
Break-even level (B)	\$20,950	\$46,010	\$51,492	\$54,884

Note. T1 (threshold for start of phase-in rate) = \$0 for all categories; all dollar figures are in U.S. currency, and the average exchange rate for 2018 was US\$1.00 = C\$1.2957 (Bank of Canada).

Source: Falk and Crandall-Hollick (2018, p. 5).

Table 2*Canada Workers Benefit and Disability Supplement, Program Parameters, 2019*

	Basic CWB	CWB Disability
Single person		
Phase-in threshold (T1)	\$3,000	\$1,150
Phase-in rate (s)	26%	26%
Threshold for maximum (TM)	\$8,212	\$3,842
Maximum credit (MAX)	\$1,355	\$700
Phase-out threshold (T2)	\$12,820	\$24,111
Phase-out rate (r)	12%	12% ^a
Break-even level (B)	\$24,112	\$29,994
Couple (regardless of children) or single parent with child		
Parameters T1, s, and r are all the same as for a single person		
Threshold for maximum (TM)	\$11,981	\$3,842
Maximum credit (MAX)	\$2,335	\$700 ^a
Phase-out threshold (T2)	\$17,025	\$36,483
Break-even level (B)	\$36,483	\$42,316 ^a

Note. ^aFor a couple where both disqualify for the disability amount, the phase-out rate (r) is 6%, the maximum CWB disability supplement is \$1,400, and the break-even level (B) is \$48,150.

Source: Retrieved January 8, 2020, from TaxTips.ca, <https://www.taxtips.ca/filing/witb/canada-workers-benefit-2019-vs-witb-2018.htm>; calculations by authors for T2.

Table 3*Provincial Earnings Supplementation Programs*

	Alberta	Quebec	Saskatchewan
Program	Alberta Family Employment Tax Credit	Quebec Work Premium Tax Credit	Saskatchewan Employment Supplement
Eligibility	Has one+ children under age 13 (childless singles ineligible)	Age 18+ or if younger has a spouse or a child	Has one+ children under age 18 (childless singles ineligible)
Administration	Federal via CRA	Provincial via QC tax	Provincial via SK gov't
Cost	\$161 million	–	\$11 million
Application	Automatic by tax filing if registered for CCB	File schedule P on QC tax return	Direct application and file quarterly report
Phase-in threshold (T1)	\$2,760	\$2,400 if single or single parent; \$3,600 if couple	\$1,500
Maximum credit (MAX)	\$801 for 1K \$1,530 for 2K \$1,967 for 3K \$2,112 for 4K	\$786 for 0K single \$1,199 for 0K couple \$2,452 for single $\geq 1K$ \$3,189 for couple $\geq 1K$	\$312.50 for 1K \$375.00 for 2K \$437.50 for 3K \$500.00 for 4K \$562.50 for 5K
Break-even income (B)	\$63,327 for 1K \$81,552 for 2K \$92,477 for 3K \$96,102 for 4K	\$18,258 for 0K single \$28,346 for 0K couple \$35,096 for single $\geq 1K$ \$48,246 for couple $\geq 1K$	\$36,840 for 1K \$39,840 for 2K \$42,840 for 3K \$45,840 for 4K \$48,840 for 5K

Note. All dollar terms have been expressed at annual rates, even when source specified as monthly rates; these figures are for 2018 or 2019, and some program parameters are subject to indexation for inflation.

K = number of children of age specified in “eligibility”; CCB = Canada Child Benefit.

Sources: Online descriptions of programs by respective provincial government agencies.

Table 4*WITB Default Parameters Versus Provincial Reconfigurations, 2018*

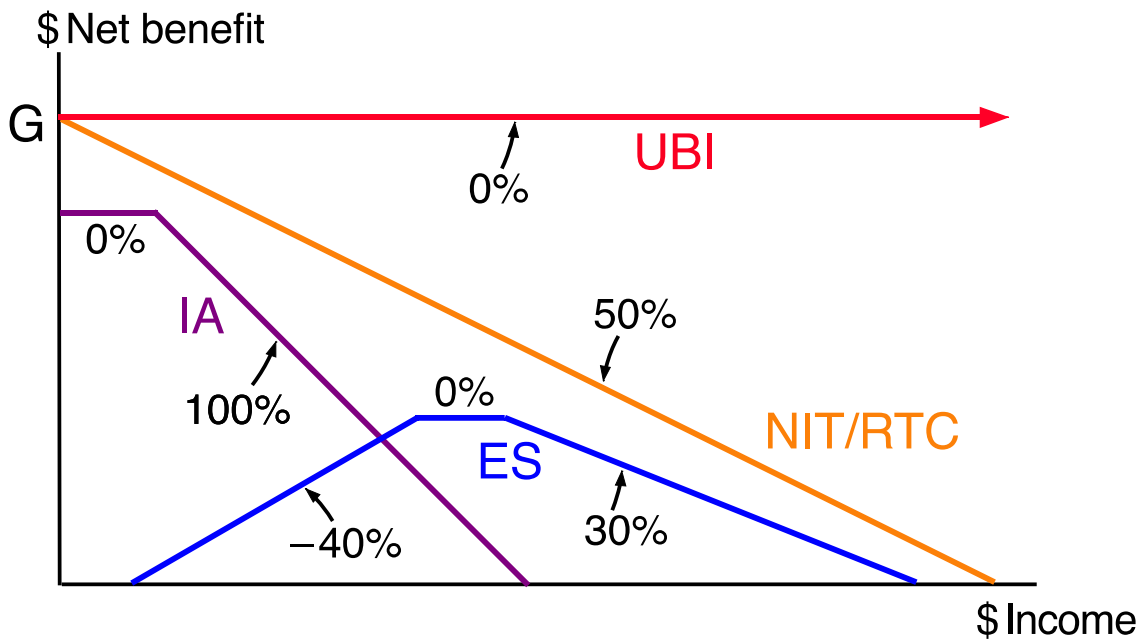
	Default	AB	BC	NU
Single person				
Phase-in threshold (T1)	\$3,000	\$2,760	\$4,750	\$6,000
Phase-in rate (s)	25%	19.7%	19.4%	5% ^a
Threshold for maximum (TM)	\$7,236	\$8,542	\$11,028	\$19,300
Maximum credit (MAX)	\$1,059	\$1,139	\$1,218	\$665
Phase-out threshold (T2)	\$12,016	\$12,588	\$13,160	\$22,887
Phase-out rate (r)	15%	14.8%	15.7%	4% ^a
Break-even level (B)	\$19,076	\$20,284	\$20,918	\$39,512
Couple (regardless of children) or single parent with child				
Parameters T1, s, and r are all the same as for a single person ^a				
Threshold for maximum (TM)	\$10,688	\$11,430	\$14,709	\$19,300
Maximum credit (MAX)	\$1,922	\$1,708	\$1,932	\$1,330
Phase-out threshold (T2)	\$16,594	\$17,165	\$17,737	\$29,181
Break-even level (B)	\$29,407	\$28,706	\$30,043	\$45,806

Note: ^a For couples in Nunavut the phase-in and phase-out rates are two times the figures for singles.

Source: Retrieved January 16, 2020, from TaxTips.ca <https://www.taxtips.ca/filing/witb/witb-2018.htm>; calculations by authors for $T2 = B - MAX/r$.

Figure 1

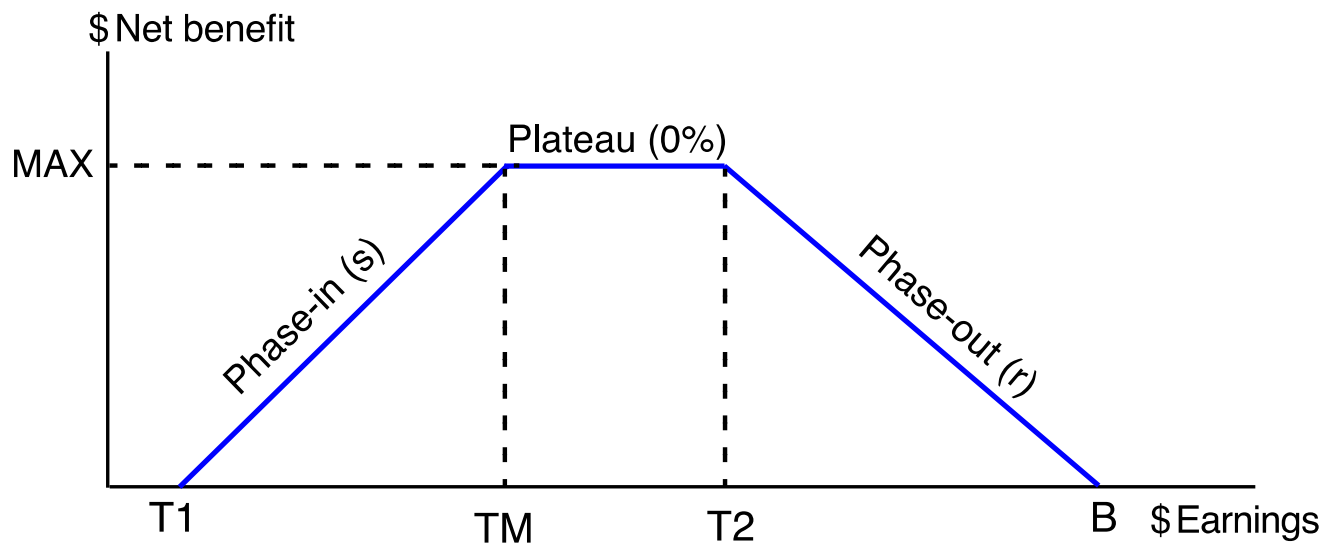
Benefit Schedules of Various Transfer Formats



G = guarantee amount per period; UBI = universal basic income; IA = Income Assistance; ES = earnings supplementation; NIT/RTC = negative income tax or refundable tax credit. Percentages denote the marginal effective tax rates over the relevant ranges of the benefit schedules.

Figure 2

Benefit Schedule of Earnings Supplementation



Note. Phase-in is based on earned income; phase-out is based on total income.